

REPORT OF THE AUDITOR-GENERAL TO PROVINCIAL LEGISLATURE AND THE COUNCIL ON VHEMBE DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Vhembe District Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting authority's report, as set out on pages XXX to XXX.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), Division of Revenue Act, 2011 (Act No. 6 of 2011) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, Plant and Equipment (PPE)

4. Included in note 2 to the financial statements are infrastructure assets amounting to R1 923 168 997 which were unbundled during the year in line with the requirements of Standards of Generally Recognised Accounting Practice (GRAP), GRAP 17, *PPE, Property Plant and Equipment*. However, assets to the amount of R24 204 650 included in the accounting records could not be verified. I also identified infrastructure assets that were not accounted for in the financial statements and the valuation of assets included in financial statements were not correctly valued in accordance with Directive 4, *Application of deemed cost on the adoption of GRAP*. The municipality may apply deemed cost to determine the cost of asset that were acquired before 1 July 2009 only if information about the historical cost of those assets is not available.
5. The deemed cost is a surrogate value for the cost or fair value of an asset at its initial acquisition, contrary to the requirements of Directive 7, the municipality applied the depreciated replacement cost on all movable assets purchased before 1 July 2009. I was unable to obtain sufficient appropriate audit evidence on the valuation of assets purchased prior to 1 July 2009. Due to the matters reported above, I was unable to determine the accuracy of the depreciation expense on water infrastructure assets of R48 769 454 (2011: R67 764 449) in the statement of financial performance including the net carrying amount of R1 923 168 997 (2011: R1 389 523 161) as it was impractical to do so.

6. The municipality did not assess assets for impairment as required by Standards of Generally Recognised Accounting Practice (GRAP), GRAP 21, *Impairment of Non-cash-generating Assets*, which require that a municipality assess at each reporting date whether there is any indication that an asset may be impaired. I was unable to determine where any adjustment relating to property, plant and equipment of R2 208 691 589 (2011: R1 639 799 581) in the financial statements was necessary.

Revenue and consumer receivables

7. The district municipality in its capacity as principal has entered into an agency agreement with its four local municipalities for the provision of water and sewerage services as agents. However no controls have been implemented to ensure that water related transactions, revenue and receivables are correctly accounted for. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all water revenue and receivables were accurately recorded.
8. My opinion was modified with regards to the consumer receivables in the prior year. No adjustments have been made to correct these balances. The closing balances are therefore misstated by an unquantifiable amount. Consequently, I was unable to obtain sufficient and appropriate audit evidence to satisfy myself as to the completeness, accuracy and occurrence of water revenue recognised at R72 431 446 (2010: R70 538 059), as disclosed in note 13 to the financial statements and the existence, completeness and valuation of the related receivable balance amounting to R63 366 686 (2011: R45 963 555), as disclosed in note 20 to the financial statements.
9. A provision for irrecoverable bad debts of R109 296 663 (2010: R130 410 379) has been raised on the consumer debtors as shown in note 20 to the financial statements. This provision has not been computed in accordance with the requirements of Standards of Generally Recognised Accounting Practice, GRAP 104, *Financial Instruments*, which requires an entity to assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets are impaired. Furthermore, a difference of R2 555 834 was identified between the movement in the provision for doubtful debt on consumer deposits and VAT receivable, and the bad debt recovered of R19 971 458 as disclosed in note 22 to the financial statements for which no documentation or explanations could be provided. I was unable to determine whether any adjustment relating to the provision for bad debts in the financial statements was necessary.
10. An unexplained difference of R7 298 875 was noted between the bad debts written off per confirmations from the local municipalities and the amounts actually written off to the statement of financial performance and the accounts receivable balance.

Other receivables

11. Other receivables amounting to R304 181 160 have been impaired in full due to non recoverability in the current financial year. A portion of this impairment should have been accounted for in the 2010-2011 financial year. The municipality has not made a retrospective restatement regarding this in accordance with Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. The municipality also did not account for the impairment provision in terms of SA Standards of GRAP 104, *Financial Instruments*.

Consequently, the comparative amount of R 271 813 728 included in note 8 and the related provision for impairment are misstated. The disclosure of other receivables and the impairment provision are also not in terms of SA Standards of GRAP 104, *Financial Instruments*.
12. I was unable to obtain sufficient and appropriate evidence for sundry debtors amounting to R3 683 990 (2011: R924 618) disclosed in other receivables, note 8 to the financial statements. The municipality's records did not permit the application of alternative audit procedures.

Consequently I was unable to determine whether any adjustment relating to sundry debtors in the financial statements was necessary.

Value Added Tax (VAT)

13. The municipality entered into an agency agreement with its local municipalities for the provision of water. As the principal, the municipality has not accounted for VAT on the water transactions in accordance with the VAT Act. The municipality also claimed VAT on non qualifying expenditure and also claimed the incorrect VAT amounts. I was unable to determine the correct amount of the VAT receivable balance of R68 044 683 (2011: 69 651 189) disclosed in the financial statements as it was impractical to do so.

Prior period errors

14. Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, requires that an entity correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by restating the comparative amounts for the period presented in which the error occurred. I identified that there were journals processed in the financial statements to correct prior period errors relating to an increase of R12 027 739 in water related receivable, decrease of R33 331 118 in consumer debtors, increase of R10 352 686 VAT receivable and a decrease of R10 950 693 to water payables. No disclosure was made for these prior period corrections in the financial statements as required by SA Standards of GRAP 3.

Cash and cash equivalents

15. The municipality did not implement adequate controls to ensure that bank reconciliations are prepared and reviewed adequately on a monthly basis. The following was noted on the year end reconciliation:
- Unexplained reconciling items amounting to R5 554 816.
 - Stale cheques amounting to R513 021 were not investigated and resolved.
 - A duplicate payment of R782 549 was not investigated and followed up until November 2012.

Consequently, I could not obtain sufficient and appropriate audit evidence to satisfy myself over the completeness and valuation and allocation of the bank balance of R2 075 485 (2010: R18 420 460) disclosed in note 10 to the financial statements..

Inventory

16. The comparative figure for water inventory of R88 432 567 disclosed in inventories, note 7 to the financial statements were materially misstated in the prior financial year. This has not been adequately resolved in the current year. Consequently I was unable to determine whether any adjustment relating to the closing balance of water inventory stated at R766 293 in the financial statements was necessary..

Trade and other payables

17. The municipality did not accrue for invoices in respect of goods and services received amounting to R20 248 307. Furthermore, the municipality did not provide supporting documentation for a payment of R3 741 465 made subsequent to year end to enable me to determine if the goods or services were received during the financial year. Consequently I was unable to determine

whether any adjustment relating to trade and other payables of R3 579 955 (2011: R82 699 798) disclosed in note 12 to the financial statements was necessary.

Trade and other payables – Retentions

18. There was no system of control over the recoding and accounting for retentions in the accounting records and financial statements. The following were noted:

- Debit balances amounting to R3 154 207 were included in the retention payable balance of R90 046 250 (2011: R77 771 767) as disclosed in note 12 to the financial statements.
- Unexplained differences amounting to R2 596 604 were noted between the underlying accounting records and supporting documentation
- No supporting documentation could be provided for retentions to the amount of R8 408 754.

Consequently I was unable to determine whether any adjustment relating to the retention balance of R90 046 250 (2011: R77 771 767) was necessary.

Trade and other payables - Water payables

19. The district municipality in its capacity as principal has entered into an agency agreement with its four local municipalities for the provision of water and sewerage services as agents. I have identified a difference of R248 459 064 between the water payables included in note 12 to the financial statements and the amounts per local municipalities' financial statements. There were no satisfactory alternative procedures I could perform to obtain reasonable assurance that the water creditors are correctly recorded. Consequently, I was unable to obtain sufficient appropriate evidence to confirm the existence, completeness and valuation of the amount of R483 659 924 (2011: 477 157 387) per note 12 to the financial statements. I was unable to quantify the misstatement to the population.

Provisions

20. The district municipality in its capacity as principal has entered into an agency agreement with its four local municipalities for the provision of water and sewerage services as agents. I have identified an unexplained difference of R5 708 188 between the leave provision balances from the local municipalities recorded in the financial records and the confirmation letters received from the local municipalities. I was unable to obtain sufficient and appropriate audit evidence to obtain reasonable assurance that the leave provision was correctly accounted for. I further identified a difference of R1 437 828 between the prior year leave provision listing and the opening balance in the financial records. I also identified differences between the leave days taken as per the leave report and the approved leave forms.
21. There was no system of control over the leave records of the municipality on which I could rely for the purpose of my audit as I noted differences between the actual leave days taken by employees per approved leave forms and the days recorded in the payroll system. I was unable to confirm the balance by alternative means. Consequently I was unable to determine whether any adjustments were necessary for leave provision of R14 993 344 (2011: R28 485 560) as disclosed in note 6 to the financial statements.
22. Included in the provision amount of R21 120 244 in note 6 to the financial statements is an amount of R5 385 488 (2011: R5 012 884) relating to long service awards that should have been disclosed and classified separately as in terms of South African Standards of Generally Recognised Accounting Practice, GRAP 19, *Provisions*. Consequently, the provisions have been overstated and other long term employment benefit liability understated by the same amount.

Accumulated surplus

23. The accumulated surplus opening balance differs from the prior year's closing balance by R52 230 900. I was unable to obtain sufficient appropriate audit evidence or explanations regarding this difference. Furthermore, correction of prior period errors were not accounted for against accumulated surplus as required in terms of SA Standards of GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. Consequently, I could not obtain sufficient and appropriate audit evidence over the valuation and allocation of the opening and closing balance of accumulated surplus in the statement of changes in net assets
24. SA Standards of GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors* requires that an entity to correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by restating the comparative amounts for the period presented in which the error occurred. I noted that corrections of prior period errors for property, plant and equipment to the value of R32 356 754 were accounted for against repairs and maintenance of R61 261 646 (2010: R50 893 983), instead accumulated surplus. The comparative figures were also not restated as required by SA Standards of GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. Due to the matters reported on above, I was unable to determine the impact on the accumulated surplus balance in the statement of changes in net assets.

Commitments

25. I identified contracts to the value of R71 097 652 that were not included in the contracts register and thus unutilised amounts excluded from the commitments balance disclosed in note 30 to the financial statements. I further identified differences between the underlying financial records and the commitments disclosed in the financial statements. I also identified differences between commitments on the underlying financial records and supporting documentation inspected. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to obtain sufficient and appropriate audit evidence to satisfy myself as to the completeness of commitments of R490 552 120 (2011: R1 005 331 354), as stated in note 30 to the financial statements. I was unable to quantify the misstatement to the population.

Irregular expenditure

26. The municipality procured goods and services amounting to R183 532 290 in contravention of the supply chain management (SCM) requirements. The amount was not included in note 35 to the financial statements as required by section 125(2)(d) of the MFMA. I could not obtain supporting documentation for R9 295 393 awards made to contractors, to determine if the tenders were awarded in accordance with the SCM requirements. Furthermore, due to the inadequate implementation of an appropriate procurement and provisioning system, I was unable to obtain sufficient appropriate evidence that the irregular expenditure identified above and the amount disclosed in note 35 to the financial statements of R606 475 669 (2011: R604 043 169) represents all the irregular expenditure incurred during the financial year under review.

Personnel expenditure

27. I was unable to obtain sufficient appropriate audit evidence or explanations on the difference of R2 484 416 noted between the payroll system and financial statements. There were no satisfactory alternative procedures I could perform to obtain reasonable assurance that the amount for personnel expenditure is correctly stated. Consequently, I was unable to obtain sufficient and appropriate audit evidence to satisfy myself as to the occurrence, completeness

and accuracy of the personnel cost of R316 720 845 (2011: R302 415 552) disclosed in note 16 to the financial statements. I was unable to quantify the misstatement to the population.

Distribution losses

28. I could not obtain sufficient and appropriate audit evidence to confirm the value, occurrence, completeness and accuracy of the distribution losses of 12 369 485kl as disclosed in note 42 to the financial statements. Consequently I was unable to determine whether any adjustment relating to these losses in the financial statements was necessary.

Water service expenditure

29. The district municipality in its capacity as principal has entered into an agency agreement with its four local municipalities for the provision of water and sewerage services as agents. There was no system of control over water expenditure on which I could rely on for the purpose of my audit, and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all water service expenditure was properly recorded. The municipality does not prepare accurate reconciliation for water service expenditure incurred.

Consequently, I was unable to obtain sufficient and appropriate audit evidence to satisfy myself as to the occurrence, completeness and accuracy of water service expenditure recognised at R66 393 045 (2011: R695 972), as disclosed in note 15 to the financial statements. I was unable to quantify the misstatement to the population.

Contingent liabilities

30. As disclosed in note 31 to the financial statements are contingent liabilities amounting to R9 098 632. No satisfactory procedures could be performed to obtain reasonable assurance that the recorded contingent liabilities are complete. Consequently, I was unable to obtain sufficient appropriate evidence to confirm the completeness of the contingent liabilities disclosed in note 31 to the financial statements.

Cash flow statement

31. Presentation of a cash flow statement, summarising the municipality's operating, investing and financing activities, is required by the Standard of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statements*. Included in the cash flow statement are the following amounts which could not be substantiated to the amounts disclosed in the statements of financial position and performance:

Receipts

- An amount of R23 287 902 (2011: R77 687 333) disclosed as "Receipts from Sale of goods and services"
- An amount of R17 517 720 in 2011 disclosed as "Receipts from Interest income"

Payments

- An amount of R326 675 365 (2011: R213 537 864) disclosed as "Payments – employee cost"
- An amount of R283 637 618 (2011: R175 764 163) disclosed as "Payments - suppliers"
- An amount of R70 460 474 (2011: R455 892 646) disclosed as "Payments – other payments".
- An amount of R63 549 442 (2011: R13 459 000) disclosed as "Payments – Other cash item".

Investing activities

- An amount of R274 620 088 (2011: R321 495 480) disclosed as "Purchases of property, plant and equipment".
- An amount of R10 480 176 (2011: R217 972 254) disclosed as "non-cash adjustments on asset opening balances".

Financing activities

- An amount of R268 675 (2011: R803 851) disclosed as "Movement in short term portion of lease liability".
- An amount of R4 405 580 (2011: R4 750 709) disclosed as "Finance lease payments".

Note 19 – Cash generated from operations

- An amount of R139 031 854 (2011: R254 205 746) disclosed as "Non-cash adjustments to property, plant and equipment".
- An amount of R321 584 291 (2011: R30 265 509) disclosed as "Changes in working capital – consumer debtors".
- An amount of R288 922 771 in 2011 disclosed as "Trade and other Payables".

32. An amount of R8 593 417 relating to the remuneration of councillors has not been included in the payments to employees. The municipality's records did not permit the application of alternative audit procedures. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy, presentation and completeness of the amounts included in the cash flow statement.

Presentation and disclosure of financial statements

33. Standard of Generally Recognised Accounting Practice GRAP 1, *Presentation of Financial Statements*, paragraph .19 (b) and (c) requires that financial statements should provide information, including accounting policies, presented in a manner which is relevant, reliable, comparable and understandable. In addition, additional disclosures should be made when compliance with the specific requirements in Standards of GRAP are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. The following non compliances with regard to GRAP 1 were identified which were inadequate for the fair presentation of the financial statements:

- IFRS 7 disclosures with regard to financial risk management were not disclosed.
- Reasons for variances with regard to budget information as required by Standards of GRAP 1 were not disclosed and the figures disclosed in the note do not reconcile to the statement of financial performance.
- Various non compliances with regard to disclosure notes to the financial statements in terms of Standards of GRAP 1 requirements.

Disclaimer of opinion

34. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

35. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Financial sustainability

36. As disclosed in note 12 to the financial statements, the municipality has obligations amounting to R111 829 143, however the municipality did not have sufficient cash on hand at year-end (R5 101 017) to cover all its obligations.

Additional matter

37. I draw attention to the matter below. My opinion is not modified in respect of this matter

Unaudited supplementary schedules

38. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, i do not express an opinion thereof.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

39. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

40. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages X to X of the annual report.

41. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information* (FMPPI)

The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

42. Improvement measures in the annual performance report for a total of 100% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Consistency

Reported indicators were not consistent or not complete when compared with planned indicators.

43. The Municipal Systems Act (MSA), section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 25% of all planned objectives and 57% of all reported targets were not consistent or not complete when compared with planned targets specified in the integrated development plan for the year under review. This was due to a lack of review of and monitoring over the completeness of reporting documents by management.

Measurability

Performance indicators not well defined

44. The National Treasury FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 67% of the indicators relevant to the technical and community service departments were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that that management was aware of the requirements of the FMPPI but did not have adequate staff in the IDP unit during the year to enable application of the principles.

Performance targets are not specific

45. The National Treasury FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 89% of the targets relevant to the technical and community service departments were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Performance targets are not measurable

46. The National Treasury FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 89% of the targets relevant to the technical and community service departments. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles

Reliability of information

Accuracy

47. The National Treasury FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 70% of the actual reported performance for the Technical services department and 37% for the Community services department relevant to objectives were not accurate when compared to source information. This was due to a lack of standard operating procedures for the recording of actual achievements by senior management.

Completeness

48. The National Treasury FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. Source information for 70% of the actual reported performance, for the Technical services department and 37% of the actual reported performance for the Community services

department selected objectives, was not completely recorded. This was due to an improper document management system with regard to actual performance achievements.

49. The National Treasury FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 70% of Technical services department and 37% Community services department. This was due to limitations placed on the scope of my work by the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

Compliance with laws and regulations

50. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

51. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
52. The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan as required by section 41 of the MSA.
53. The municipality did not set measurable performance targets with regard to each development priority and objective as required by section 41 of the MSA.

Annual financial statements, performance and annual report

54. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer of opinion.
55. The annual performance report for the year under review does not include a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(c) of the MSA.

Procurement and contract management

56. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
57. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
58. Contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act 2000 (Act No. 5 of 2000)(PPPFA) and its regulations.
59. Contracts were extended and modified without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
60. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
61. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

- 62. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
- 63. Awards were made to providers who are persons in the service of the municipality in contravention of SCM regulations 44. Furthermore the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c).
- 64. Awards were made to providers who are persons in service of other state institutions or whose directors, principal shareholders are persons in service of other state institutions, in contravention of SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
- 65. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as supporting documentation were not provided on some awards made.

Expenditure management

- 66. The accounting officer did not take all reasonable steps to ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement as required by section 65(2)(e) of the MFMA.
- 67. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors, accounted for payments made, as required by section 65(2)(b) of the MFMA.
- 68. The accounting officer did not take reasonable steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

Revenue management

- 69. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA
- 70. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors, accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA
- 71. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.
- 72. The accounting officer did not immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, if such payments are regularly in arrears for periods of more than 30 days, as required by section 64(3) of the MFMA.
- 73. The accounting officer did not ensure that the municipality has effective revenue collection systems consistent with section 95 of the MSA and the municipality's credit control and debt collection policy; and that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed, as required by section 64(2) of the MFMA.

Asset management

- 74. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

Human Resource Management

- 75. The competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.
- 76. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels regulation 14(2)(a).
- 77. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulation 14(2)(b)

Audit Committee

- 78. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
- 79. The audit committee did not advise the council on matters relating to compliance with the MFMA and DoRA, as required by section 166(2)(a)(vii) of the MFMA.
- 80. The performance audit committee did not submit at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii)).

INTERNAL CONTROL

- 81. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- 82. Management does not always appropriately provide the required supervision and review over operations to ensure that the municipality complies with all laws and regulations and appoint the necessary skilled staff members. Action plans were developed, however, they it was not fully implemented, resulting in recurring findings on asset management and the recognition of water related transactions.

Financial and performance management

- 83. A lack of technical knowledge with regard to the implementation of new accounting standards and legislation in most of the directorates in the municipality.
- 84. These have an effect on personnel to adequately perform their functions, such as regular confirmation, existence and reconciliation of assets and water related transactions and implementing accounting guidelines and standards together with adherence to the requirements of laws and regulations resulted in the opinion received on the submitted financial statements and reported performance against predetermined objectives.
- 85. There is no monitoring of, and controls within the performance management process to ensure valid, accurate and complete performance results.
- 86. The performance management system is not operated and managed from planning up to the stages of performance review and reporting.
- 87. The performance management system, processes, procedures and controls are not implemented as designed and described.

88. Standard operating procedures for performance information are not comprehensively documented.

Governance

89. Management ineffectiveness in implementing recommendations from internal and external audit did not enable the audit committee to promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations

Auditor General

Polokwane

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence